



Arizona Utility
Investors Association

2100 N. Central, Ste. 210
P. O. Box 34805
Phoenix, AZ 85067
Tel: (602) 257-9200
Fax: (602) 254-4300
Email: swpr@amug.org

Arizona Corporation Commission

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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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CARL J. KUNASEK
CHAIRMAN
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WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF)
CITIZENS UTILITIES FOR APPROVAL OF)
ITS PLAN FOR STRANDED COST)
RECOVERY AND ITS FILING OF)
UNBUNDLED AND STANDARD OFFER)

DOCKET NOS.
E-0132C-98-0474
E-0132C-97-0774

SERVICE TARIFFS PURSUANT TO R14-2-1606.

COMMENTS

OF THE ARIZONA UTILITY INVESTORS ASSOCIATION

Pursuant to the revised Procedural Order dated July 13, 1999, the Arizona Utility Investors Association (AUIA) hereby files its Comments in the above-captioned matter. AUIA will not introduce direct testimony or offer a witness in this proceeding.

1. Introduction

Citizens Utilities Company has faced a peculiar circumstance since the first set of rules was promulgated in the electric competition docket in 1996.

Citizens is a distribution utility (UDC) with no baseload or intermediate load generation resources of its own to meet the power needs of its customers in Mohave and Santa Cruz counties. Its limited generation capability consists of the Valencia must-run units which provide Santa Cruz County with its only protection from failures on a radial supply network.

Nevertheless, as a monopoly provider, Citizens has had the sole responsibility for supplying generation for its customer base. It has done this through a long term wholesale electric purchase agreement with Arizona Public Service Company (APS).

The electric competition rules require Citizens to give its customers the opportunity to choose generation suppliers. The same rules require Citizens to act as the provider of last resort for most of its customers.

There is no disagreement that Citizens' contract with APS is "out of market." While the contract is under FERC jurisdiction, it has been the main source of Citizens' stranded cost attributable to retail competition and the chief obstacle to implementing competition in Citizens' service territory.

APS cannot be faulted for demonstrating some reluctance to give up or modify a lucrative power contract in this unstable and unpredictable competitive market. Both companies should be complimented for negotiating an adjustment to the Citizens' contract which reduces its stranded cost exposure significantly and produces immediate benefits for its customers.

2. Citizens' Stranded Cost

Citizens presents its stranded cost position as follows:

- The adjustment to the APS contract has reduced Citizens' stranded cost potential by \$24.9 million, from \$43.2 million to \$18.3 million.
- Citizens proposes to make a filing in mid-2000 for a final determination of whether divestiture of the APS contract is the best option.
- The APS contract becomes assignable to a third party by Jan. 1, 2001.
- Citizens has negotiated out of its position in the 75 MW Mohave Combustion Turbine project, removing \$4 million of stranded cost.
- All told, mitigation efforts have reduced estimated stranded costs from \$57 million to \$28 million.
- Generation costs for standard offer service customers have been reduced 6 percent. Between now and April 30, 2002, Citizens' customers will realize \$13 million of savings.
- Citizens reports approximately \$3 million of regulatory assets related to deferred and unrecovered DSM revenues.
- Citizens also reports approximately \$1.1 million (net present value) of stranded costs associated with metering and billing functions based on a net revenues lost approach. Citizens proposes to track and accumulate these costs in a Metering and Billing Deferral Account (MBDA).

- Citizens expects to incur transition costs which would be accumulated in a Competitive Transition Deferral Account (CTDA) for later recovery. One-time costs are estimated at \$1.8 million and ongoing annual costs are estimated to be \$600,000.

- Citizens proposes to recover its stranded costs through a Competitive Transition Charge (CTC) that would amortize its one-time costs over a 10-year period while its on-going costs would be recovered annually in rates.

- The CTC would be applied proportionately to rate classes on a flat monthly fee rather than on a consumption basis.

3. AUIA Reactions and Recommendations

Citizens seeks Commission approval of several specific proposals with regard to stranded cost recovery. AUIA recommends the following:

1. Interim recovery of unmitigated stranded costs remaining from the APS power supply contract based on a net-revenues-lost methodology. AUIA believes this proposal is reasonable.

2. Delayed divestiture of the APS contract until the Commission can review a mid-year 2000 filing by Citizens. This is also a reasonable request, given the renegotiated contract terms.

3. Proposed CTC mechanism. AUIA supports the flat fee approach but asserts that the 10-year amortization of one-time costs is too long. Although AUIA recognizes that each company's situation is unique, we believe the amortization should be aligned with stranded cost decisions made by the Commission in other dockets.

4. Recovery of \$3 million of regulatory assets. Consistent with Commission policy, AUIA recommends approval, based on verification of the company's estimates.

5. Recovery of transition costs through establishment of the proposed CTDA. Again, consistent with Commission policy in other dockets, AUIA recommends approval.

6. Recovery of metering and billing stranded costs through establishment of an MBDA. AUIA believes this is a reasonable approach to a perplexing problem.

4. Summary

Unlike Affected Utilities that can choose to put their generating assets to work in the competitive marketplace, Citizens Utilities can only bargain with its power supplier to get closer to a market price. It can't become a reseller, nor can it simply dump APS without putting its customers at risk.

In this circumstance, Citizens has made significant strides in mitigating its potential stranded costs. It should be given the opportunity to recover its remaining stranded costs and the flexibility to measure the impact of the revised APS contract against market conditions.

On a separate issue, the Arizona Community Action Association has questioned why Citizens proposes to retain its Valencia units in Santa Cruz County rather than divesting them. We offer two responses:

First, the Commission to date has not proposed that must-run generation should be divested by Affected Utilities but rather that their output should be subject to regulation.

Second, without indulging in excruciating detail, we should point out that Citizens is embroiled in a separate proceeding focused on service reliability in Santa Cruz County and any move toward divesting the Valencia units would seriously complicate that proceeding.

Citizens has suggested a reasoned approach to stranded cost recovery and should be given the opportunity to carry it out.

RESPECTFULLY SUBMITTED,
this 19th day of July, 1999, by


WALTER W, MEEK, PRESIDENT

Original and ten (10) copies of the
referenced Comments were filed this
19th day of July, 1999, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Copies of the referenced Comments
were hand-delivered this 19th day of
July, 1999, to:

Jerry Rudibaugh, Hearing Division
Ray Williamson, Utilities Division
Paul M. Bullis, Legal Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Copies of this Notice were mailed this
19th day of July, 1999, to all parties of record
in the above-captioned docket.

Craig A. Marks
Senior Counsel - Arizona
Citizens Utilities Company
2901 N. Central Ave. Suite 1660
Phoenix, AZ 85012-2736

Scott Wakefield
Chief Counsel
RUCO
2828 N. Central Ave. Suite 1200
Phoenix, AZ 85004

Betty Pruitt
Arizona Community Action Association
2627 N. 3rd St., Suite #2
Phoenix, AZ 85004

C. Webb Crocket
Fennemore Craig
3003 N. Central Ave. Suite 2600
Phoenix, AZ 85012-2913